GRINKMEYER LEONARD FINANCIAL

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It’s That Time Again! Back-to-School for Fiduciaries

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Can you hear the bells ringing? It’s that time of year to review your to-do list of fiduciary responsibilities. Ask yourself the following questions to make sure you are on top of your responsibilities and liabilities.

1. Are you practicing procedural prudence when making plan management decisions?
2. Do you clearly understand the Department of Labor’s (DOL) TIPS on selecting and monitoring your QDIA in order to obtain fiduciary protection?
3. Are you documenting each plan management decision and its support?
4. Are you familiar with current trends in fiduciary litigation?
5. Are you certain that your plan is being administered in accordance with your plan document provisions?
6. What fiduciary liability mitigation strategies are you following? (Fiduciaries are personally financially responsible for any fiduciary breaches that disadvantage participants.)
7. Are you kept abreast of regulatory changes?
8. Are you appropriately determining reasonableness of plan fees, services and investment opportunities?
9. How do you define “success” for your plan and what metrics do you use to track progress?

10. Is your current plan design communicating the appropriate messaging to encourage success for your participants and plan fiduciaries?
11. Is your menu efficiently designed for benefit of participants and plan fiduciaries?
12. Are you certain you are providing all required communications and distributions to plan participants (including former participants with account balances)?
13. Are you handling missing participants appropriately?
14. Are you appropriately monitoring and documenting your fiduciary activities and those of your service providers?
15. Are you maintaining plan records appropriately?

Many fiduciaries are unaware of their fiduciary responsibilities or do not understand them. If you need help uncovering the answers to any of these important questions, do not hesitate to reach out to your financial professional.

About the Author, Morgan Davis
Morgan is responsible for guiding plan sponsors through the intricacies of investment analysis and innovative plan design and making it easy to understand. Blending employer and employee objectives, Morgan encourages plan design initiatives to create optimal retirement plan outcomes for participants. Morgan is a graduate of Michigan State University where she earned a Bachelor of Arts in marketing.

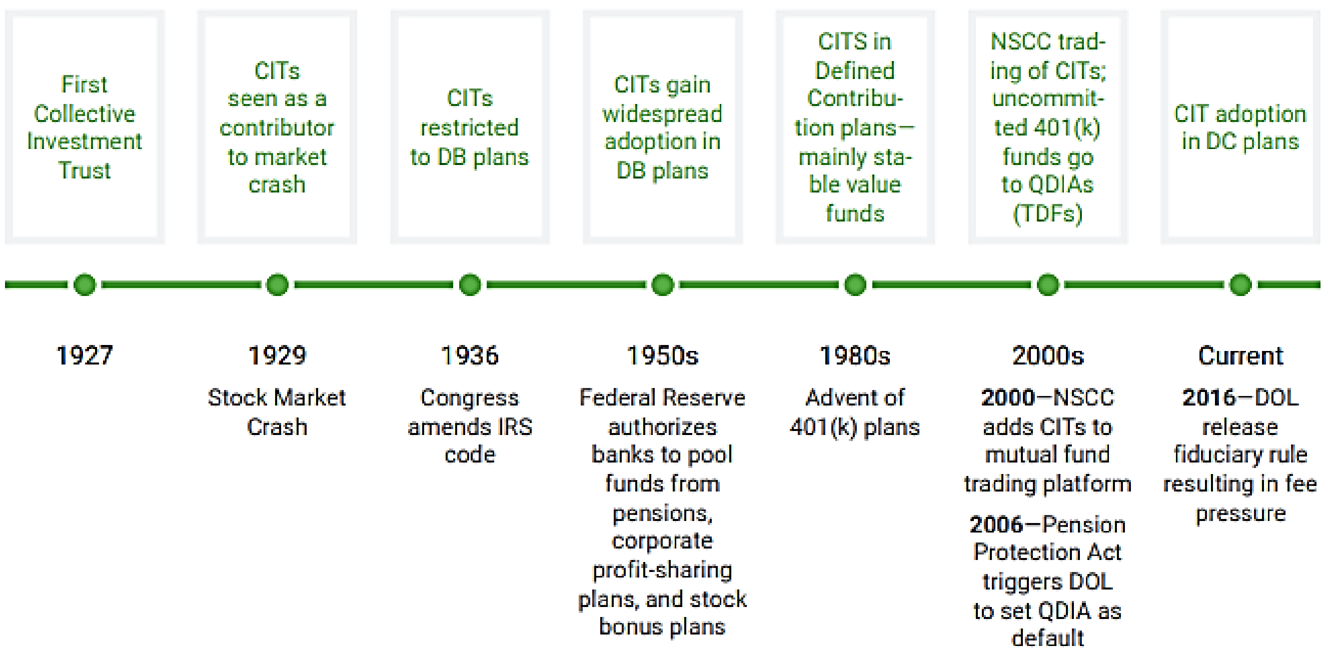
Collective Investment Trusts – The Fastest Growing Investment Vehicle Within 401(k) Plans

For almost a century, collective investment trusts (CITs) have played an important role in the markets. They were originally introduced in 1927. According to a 2020 study, they are now used in more than 70 percent of plans.[1]

For the vast majority of their existence, CITs were available only in defined benefit (DB) plans. In 1936, CIT use expanded in DB plans when Congress amended the Internal Revenue Code to provide tax-exempt (deferred) status to CITs. CITs then gained widespread adoption in the 1950s when the Federal Reserve authorized banks to pool together funds from pensions, corporate profit-sharing plans and stock bonus plans. The IRS also granted these plans tax-exempt status.

In the 1980s, 401(k) plans became primary retirement plans and mutual funds became the primary investment vehicle, due to daily valuation. In the 2000s, CITs gained significant traction in defined contribution (DC) plans due to increased ease of use, daily valuation and availability. During this time, CITs were also named as a type of investment that qualifies as a qualified default investment alternative (QDIA) under the Pension Protection Act of 2006.

The History of Collective Investment Trusts



Source: DST kasina with data from Department of Labor, Investment Company Institute

From 2011 to 2018, total assets in CITs grew by approximately 64 percent. During which their share of 401(k) assets reached nearly 28 percent, or approximately $1.5 trillion.[2]

The advantages of CITs are plentiful:

- Lower operational and marketing expenses
- A more controlled trading structure compared to mutual funds
- They're exempt from registration with SEC, thereby avoiding costly registration fees

On the other hand, CITs are only available to qualified retirement plans and they may have higher minimum investment requirements.

While CITs have traditionally only been available to large and mega-sized plans, continued fee litigation – as well as increased CIT transparency, reporting capabilities and enhanced awareness – has amplified the allure of CITs to plan sponsors across all plan sizes. However, CITs have not been widely available to all plans — until now.

Through your advisor's strategic partnership with RPAG, a national alliance of advisors with over 60,000 plans and $600 billion in retirement plan assets collectively[4], they can provide their clients with exclusive access to actively managed, passively managed and target date CITs, featuring top-tier asset managers[5] at a substantially reduced cost.

For more information on CITs, contact Grinkmeyer Leonard Financial.

[1]Callan-2020-DC-Trends-Survey
[2]Collective Investment Trusts: An Important Piece in the retirement Planning Puzzle-Wilmington Trust-2020
[3]DST kasina with data from Department of Labor, Investment Company Institute.
[4]As of 1/1/2020.
[5]Top-tier asset managers include BlackRock, Franklin Templeton and Lord Abbett.

The target date is the approximate date when investors plan on withdrawing their money. Generally, the asset allocation of each fund will change on an annual basis with the asset allocation becoming more conservative as the fund nears target retirement date. The principal value of the funds is not guaranteed at any time including at and after the target date.

Collective investment trusts available only to qualified plans and governmental 457(b) plans. They are not mutual funds and are not registered with the Securities and Exchange Commission.

Allowable Plan Expenses: Can the Plan Pay?

The payment of expenses by an ERISA plan (401(k), defined benefit plan, money purchase plan, etc.) out of plan assets is subject to ERISA's fiduciary rules. The "exclusive benefit rule" requires a plan's assets be used exclusively for providing benefits. ERISA also imposes upon fiduciaries the duty to defray reasonable expenses of plan administration. General principles of allowable expenses include the following:

- The expenses must be necessary for the administration of the plan.
- The plan's document and trust agreement must permit use of plan assets for payment of expenses.
- The expenses must be reasonable and incurred primarily for the benefit of participants/beneficiaries.
- The expense cannot be the result of a transaction that is a prohibited transaction under ERISA, or it must qualify under an exemption from the prohibited transaction rules.

In light of today's plan fee environment, it is incumbent upon fiduciaries to request full disclosure of fees and expenses, how they breakdown with services provided, as well as a request for full explanation of who will be the recipient of fees.

Ultimately, the ability to pay expenses from a plan trust is a facts and circumstances determination that needs to be made by plan fiduciaries. Because it is possible that the DOL may challenge such determinations it is important that fiduciaries consult ERISA counsel prior to paying questionable expenses from a plan trust and document the decision and reasoning.

For more information on this topic, contact Grinkmeyer Leonard Financial.

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